

Proposed prospective payment system for long-term care hospitals

ISSUE: Will the proposed prospective payment system (PPS) for long-term care hospitals (LTCHs) characterize and classify patients appropriately? Will the PPS generate payments that are adequate to cover efficient providers' costs of furnishing care and accurately reflect cost differences among treatment categories, markets, and other provider characteristics?

KEY POINTS: The proposed PPS has a number of unique features. The PPS:

- Changes the qualifying criterion for certification as a long-term care hospital from average length of stay (ALOS) of 25 days for all patients to an ALOS of 25 days for Medicare patients only. This change will help ensure that LTCHs serve Medicare patients that need extended periods of inpatient hospital care.
- Establishes a discharge as the unit of payment; payment includes all operating and capital costs of care. The PPS also creates boundaries for the unit of payment by defining very short-stays, short-stay outliers, and interrupted stays.
- Classifies patients using the diagnosis related groups (DRG) used to classify patients in the acute care hospital. The LTC-DRGs, however, will have four additional nonclinical groups and LTCH-specific weights based on hospital-specific relative values.
- Creates an 8 percent high-cost outlier pool for payments for extraordinarily costly patients.
- Does not adjust payments for local market conditions. CMS concluded that adjusting for wage differences did not increase the accuracy of payment rates.
- Does not adjust for disproportionate share of low-income patients (DSH). MedPAC considers that DSH protects vulnerable providers by partially offsetting revenue losses associated with uncompensated care. LTCHs with significant proportions of low-income patients will not be helped by this provision.
- Phases in the PPS over five years, beginning October 1, 2002. The LTC-DRG portion of the payment rate will increase by 20 percent per year and the facility-specific portion will decrease by the same fraction.

ACTION: This mailing material is a summary of the proposed PPS. We are seeking additional background information to help you interpret features of the payment system. Comments on the proposed rule are due to CMS by May 21, 2002. MedPAC also must report to the Congress its analysis of the proposed rule.

STAFF CONTACT: Sally Kaplan (202-653-2623)